

# **REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE AND COUNCIL ON GREATER KOKSTAD MUNICIPALITY**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Introduction**

1. I have audited the financial statements of the Greater Kokstad Municipality set out on pages ... to ..., which comprise, the statement of financial position as at 30 June 2013, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

### **Accounting officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2012 (Act No. 5 of 2012) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor-general's responsibility**

3. My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **Opinion**

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Greater Kokstad Municipality as at 30 June 2013, and its financial performance and cash flows for the year then ended in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA.

**Emphasis of matters**

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

**Going concern**

8. As disclosed in note 39 to the financial statements, there is significant pressure on the municipality's cash reserves and current liabilities exceed current assets by R43,55 million. These conditions indicate the existence of a material uncertainty that may cast significant doubt on the municipality's ability to operate as a going concern.

**Irregular expenditure**

9. As disclosed in note 43 to the financial statements, irregular expenditure amounting to R16,11 million was incurred as a result of contracts awarded to suppliers in contravention of the Municipal Supply Chain Management Regulations (MSCMR).

**Unauthorised expenditure**

10. As disclosed in note 41 to the financial statements, unauthorised expenditure amounting to R29,32 million was incurred as the municipality had exceeded the limits provided for in the approved budget.

**Material impairment**

11. As disclosed in note 28 on debt impairment, material losses of R13,20 million were incurred as a result of a write-off of irrecoverable trade debtors.
12. As disclosed in note 7 on consumer debtors, the municipality impaired its consumer debtors by R25,40 million as a result of the annual review of outstanding consumer debt.

**Significant uncertainties**

13. With reference to note 35 to the financial statements, the municipality is a defendant in civil claims regarding damages to property and supply chain management awards. The ultimate outcome of the matter cannot presently be determined and no provision for any liability that may result has been made in the financial statements.

**Restatement of corresponding figures**

14. As disclosed in note 46 to the financial statements, the corresponding figures for 30 June 2012 have been restated as a result of errors discovered during 2013 in the financial statements of the Greater Kokstad Municipality at, and for the year ended, 30 June 2012.

**REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

15. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

**Predetermined objectives**

16. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages ... to ... of the annual report.

17. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the *National Treasury Framework for managing programme performance information* (FMPPI).
18. The reliability of the information in respect of the selected objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).
19. The material findings are as follows:

### **Usefulness of information**

#### **Presentation**

#### **Measures taken to improve performance not disclosed**

20. Section 46(1)(c) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA) requires disclosure in the annual performance report of measures taken to improve performance where planned targets were not achieved. Measures to improve performance for 37% of the planned targets not achieved were not reflected in the annual performance report. This was due to a lack of review of the reported performance information and the annual performance report disclosure checklist was not developed and implemented by management.

#### **Measurability**

#### **Performance targets not specific**

21. The FMPPI requires that performance targets be specific in clearly identifying the nature and required level of performance. A total of 36% of the targets were not specific in clearly identifying the nature and the required level of performance. This was due to the fact that the integrated development plan (IDP) manager did not exercise adequate oversight over the preparation of the service delivery and budget implementation plan to ensure that it contained targets that were specific.

#### **Performance targets not measurable**

22. The FMPPI requires that performance targets be measurable. The required performance could not be measured for 33% of the targets. This was due to the accounting officer not implementing adequate controls to ensure that targets were measurable as well as a lack of proper reviews by the IDP manager and internal audit function to ensure that performance targets were measurable.

### **Performance indicators not well defined**

23. The FMPPI requires that indicators should have clear, unambiguous data definitions so that data can be collected consistently and is easy to understand and use. A total of 45% of the indicators were not well defined in that clear, unambiguous data definitions were not available to allow for data to be collected consistently. This was due to the fact that the accounting officer did not implement adequate controls to ensure that performance indicators were well defined as well as a lack of proper reviews by the IDP manager and internal audit.

### **Relevance**

#### **Performance indicators not relevant**

24. The FMPPI requires that indicators relate logically and directly to an aspect of the municipality's mandate or the realisation of strategic goals and objectives. A total of 24% of the indicators did not relate logically and directly to an aspect of the municipality's mandate or the realisation of strategic goals and objectives as per the five-year IDP. This was due to a lack of development and implementation of proper performance planning and management practices to provide for the development of relevant performance indicators included in the annual performance report.

### **Reliability of information**

#### **Reported performance not reliable**

25. The FMPPI requires municipalities to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. Significantly important targets with respect to building control were not reliable when compared to the source documentation and evidence provided. This was due to a lack of review by the IDP manager and internal audit to ensure that actual achievements were supported by accurate and reliable documentation.

### **Additional matter**

26. I draw attention to the following matter below. This matter does not have an impact on the audit findings on predetermined objectives reported above.

### **Achievement of planned targets**

27. Of the total number of 185 targets planned for the year, 61 targets were not achieved during the year under review. This represents 33% of total planned targets that were not achieved during the year under review. This was due to the fact that management did not perform an adequate mid-year review of targets and their related actual outcomes and to revise the targets to be realistic and achievable at year-end.

### **Compliance with laws and regulations**

28. I performed procedures to obtain evidence that the municipality has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the general notice issued in terms of the PAA are as follows:

### **Strategic planning and performance management**

29. The council's oversight report on the 2011-12 annual report was not made public within seven days of its adoption, as required by section 129(3) of the MFMA.

### **Annual financial statements and performance report**

30. The financial statements submitted for auditing were not prepared, in all material respects, in accordance with the requirements of section 122 of the MFMA. Material misstatements of property, plant and equipment, investment property and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.
31. The annual performance report for the year under review did not include measures taken to improve performance, as required by section 46(1)(c) of the MSA.

### **Procurement and contract management**

32. Contracts and quotations were awarded to bidders who did not submit a declaration on whether they were employed by the state or connected to any person employed by the state, as required by MSCMR 13(c).
33. Goods and services with a transaction value below R200 000 were procured without obtaining the required price quotations, as required by MSCMR 17(a) and (c).
34. Awards were made to providers who were in the service of other state institutions, in contravention of section 112(j) of the MFMA and MSCMR 44. Similar awards had been identified in the prior year and no effective steps were taken to prevent or combat the abuse of the process in accordance with MSCMR 38(1).

### **Expenditure management**

35. Money owing by the municipality was not always paid within 30 days or an agreed period, as required by section 65(2)(e) of the MFMA.
36. Reasonable steps were not taken to prevent unauthorised and irregular expenditure, as required by section 62(1)(d) of the MFMA.

### **Asset management**

37. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.

### **Waste management**

38. The municipality operated its waste disposal site without a waste management licence or permit, in contravention of section 20(b) of the National Environmental Management: Waste Act of South Africa, 2008 (Act No. 59 of 2008) and section 20(1) of the Environmental Conservation Act of South Africa, 1989 (Act No. 73 of 1989).

### **Internal control**

39. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

### **Leadership**

40. The accounting officer did not exercise oversight responsibility over the annual performance report and compliance with key legislation.

### **Financial and performance management**

41. Management did not implement adequate controls over the procurement of goods and services to comply with the requirements of the MSCMR and the MFMA.
42. Management did not perform an adequate review of the annual financial statements, annual performance report and their supporting schedules, prior to submission for audit.

### **OTHER REPORTS**

#### **Investigations in progress**

43. Investigations into allegations of SCM irregularities and the misappropriation of funds at the municipality is in progress.

*Auditor-General*

Pietermaritzburg

30 November 2013



**AUDITOR-GENERAL  
SOUTH AFRICA**

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